

# NCUA News

## BOARD ACTIONS

### Increased Threshold Proposed for Member Business Loans

Federally insured credit unions have 60 days to comment on a NCUA Board proposal to update, clarify, and streamline the member business loan rule, Part 723, and a corresponding amendment to the appraisal rule, Part 722.

"The change should give credit unions some flexibility to make micro-enterprise loans without affecting their safety and soundness," NCUA Chairman Norman E. D'Amours said. "This amendment would accommodate members who want to buy a tractor for the farm or a truck for a small towing service, or a single mother who wants to operate a bakery out of her kitchen while her children are in school," noted D'Amours.

The substantive changes being considered would:

- Increase the exception threshold on member business loans from \$50,000 to \$100,000;
- Add a corresponding waiver provision on appraisals for member business loans;
- Reduce reporting requirements; and
- Add expected reductions in costs.

NCUA is considering increasing the exception threshold on member business loans because credit unions have commented that vehicle and vacation home loans sometimes bump up against the \$50,000 limit. This has caused some credit unions to avoid making an otherwise good loan because they are not structured to make member business loans.

To reduce regulatory burden, the proposal recommends eliminating duplicate reporting requirements for member busi-

ness loans and eliminating the need to periodically disclose to members the number and aggregate dollar amount of member business loans held.

The proposal was issued in an easy to read and understand Q&A format that clearly answers numerous questions, for example —

- What is a member business loan?
- How do you implement a member business loan program?
- What are the collateral and security requirements?
- How much can one member or a group of members borrow?
- How do you obtain a waiver request?

When submitting comments, credit unions are also encouraged to address the new format NCUA is using to write regulations. NCUA and the entire federal government now write proposed changes and final regulations in "plain English" so users find it easier to comprehend and comply with these rules.

### Mid-Session Budget Approved

The NCUA Board adopted the mid-session budget at its July 23 open meeting. Through the first six months of 1997, the agency spent \$46 million and estimates that 1997 operating costs will be \$99.4 million, which is .5 percent or \$500,000 below original projections of \$99.9 million. Savings are primarily due to the agency's average 11 vacant positions.

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**Dennis Dollar** has been nominated by the White House to a seat on the NCUA Board. Mr. Dollar is manager of \$31 million Gulfport VA Federal Credit Union, Gulfport, Mississippi. His nomination was sent to the Senate Banking Committee July 31.

## Update on CU Court Cases

### AT&T is the First Case Heard this Fall

The AT&T lawsuit will be the first case the Supreme Court hears when its Fall session begins. The Supreme Court will hear oral arguments in *NCUA v. First National Bank and Trust Co., Et Al.*, Monday, October 6 at 10 a.m..

NCUA files a final brief with the Supreme Court August 11 in response to the Bankers' final brief filed in July.

### Justice Department Joins Tax Lawsuit

On the question of tax exemption, the Justice Department notified NCUA July 24 that it is seeking to join as a party in the *City of Anaheim vs. the California Credit Union League* lawsuit. The case concerns the question of whether federal credit unions must pay the hotel occupancy tax in California. The Justice Department's action will preserve federal jurisdiction over the case and keep it in federal courts.

## News Briefs

- **Count Reaches 100 --** One hundred Congressman have signed on to co-sponsor HR 1 151, the legislation to amend the Federal Credit Union Act to allow multiple group charters.
- **College CDCU Classes --** NCUA is developing a curriculum that can be used in teaching community development credit union principles at community colleges across the country.
- **NCUSIF Reports --** The equity level of the Share Insurance Fund increased to 1.31 percent at June 30. No new funds have been added to the Fund's Reserve account for nearly three years. If current stable conditions prevail, the Fund is on track to issue its third consecutive dividend this Fall.
- **Electronic Fund Transfers --** NCUA issued Letter to Credit Unions 97-CU-7 in July along with EFT data collection forms that must be returned

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Shirlee P. Bowné, Vice Chairman**  
**Yolanda T. Wheat, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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to NCUA by September 30, 1997. NCUA plans to issue all payments electronically by mid- 1998 to conform with the January 1999 deadline set for all federal agencies by the Debt Collection Improvement Act of 1996.

- **IRA Changes --** Both the House and Senate version of proposed tax cut legislation contain major changes to enhance IRA contributions, which will indirectly benefit credit unions.

## Upcoming Board Meeting Items

NCUA does not schedule an August Board meeting. In September or October, the following items are expected for presentation to the Board.

- Credit Union Service Organization final rule
- Interpretative Ruling and Policy Statement Action

## Make HMDA Data Available

Credit unions, and all 9,300 financial institutions, that submitted mortgage loan transaction data in 1996 received their individual HMDA disclosure statements from the Federal Financial Institutions Examination Council (FFIEC) last month. Nationwide HMDA data is also available from the FFIEC in various formats — on magnetic tape, disk, and CD-ROM.

Each institution's disclosure statement must be available for the public at the home office within three business days of receiving their statement. In addition, lenders must have the statistical data available in at least one location for each metropolitan area where branch offices are located.

The disclosure statements cover home purchase and home improvement loans and contain information about loan originations, loan purchases, and applications that did not result in a loan. The 1996 data includes a total of 14.8 million reported loans and applications, a 32 percent increase from 1995 that is primarily attributed to a 68 percent increase in refinancing activity in 1996.

For most loans tied to property located in metropolitan statistical areas (MSAs), the statements identify the geographic location, usually by census tract. The statements give information about three characteristics of applicants or borrowers: race or national origin, sex, and annual income.

The FFIEC has distributed aggregate and individual disclosure statements to a

central depository in each metropolitan statistical area for public inspection. The location of these central depositories can be obtained by calling the FFIEC (Ms. Campbell, 202-634-6526).

In addition, the FFIEC makes HMDA data directly available to the public in various formats, including magnetic tape, PC diskette, and CD-ROM. Some are available in paper form, such as tables for 1996 showing the nationwide aggregates and key demographic information for metropolitan areas. Obtain an order form by calling 202-452-2016 and selecting option 3, or request it by fax at 202-452-6497.

The FFIEC also provides data from the nation's eight private mortgage insurance (PMI) companies. The 1996 PMI data includes information on approximately 1.4 million applications for mortgage insurance. About 1.1 million were to insure home purchase mortgages, and 0.2 million were to insure mortgages to refinance existing obligations. These data will be available at individual PMI companies, at the central depositories in each metropolitan area, and from the FFIEC in the same types of reports and in the same formats as the HMDA data.

Most questions about HMDA reporting are answered in the FFIEC Publication, *A Guide to HMDA Reporting, Getting It Right*. Copies are available from NCUA Publications at 703-518-6340.

## BOARD ACTIONS

### Mid-Session Budget

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While overall operating costs are under budget, revised projections recommend additional expenditures in some areas of operation. The most significant increase is a request for \$736,000 to upgrade IBM Think Pad computers for NCUA field and state examiners to accommodate the Windows NT platform. This upgrade should extend the useful life of these computers into 1999 and supply updated CD-ROM reference material. An additional \$250,000 will be used to cover Windows NT training costs.

The Office of Human Resources requested \$130,000 for a personnel study to evaluate the possibility of reclassifying NCUA examiner positions. An additional \$172,400 was added to review credit union data processors to prepare for the Year 2000 project.

## 18 Percent Loan Interest Rate Ceiling Extended

The NCUA Board extended the 18 percent loan interest rate ceiling for an additional 18 months, from September 1997 through March 1999, to ensure that lending remains unrestricted. Requiring all lending to remain at or below the 15 percent threshold contained in the *Federal Credit Union Act* could negatively impact risk-based lending programs. It could also affect the financial condition of at least 871 credit unions that report their “most common” unsecured loan rates are over 15 percent. As a result, young members and lower income households establishing credit could face more difficulties in securing loans at reasonable rates

Vice Chairman Shirlee Bowné pointed out during the meeting that “most credit union lending is below 15 percent.” Consequently, credit union members can continue to enjoy lower rates on average. It is important, however, to allow federal credit unions to establish loan rates that best suit their members and that are consistent with market conditions.

## CUs Convert and Expand Charters

## Conversions Approved

Four credit unions gained approval to convert to community-based charters and two credit unions received charter expansion authority at the July meeting.

The multiple-group, \$26 million *Owatonna FCU*, Owatonna, Minnesota, gained approval to convert to a community charter to serve the 113,722 people who live, work, or worship in Rice, Steele, Waseca, and Dodge Counties in Minnesota. Residents in this well-defined, primarily rural area frequently interact. Many supplement farm incomes with jobs in the numerous light manufacturing plants located throughout the area.

*Hub of the Plains FCU*, Lubbock, Texas, gained NCUA Board support to convert from a multiple-group to a community charter that will serve the 231,000 residents of Lubbock County. The \$25 million credit union gained approval to convert because the credit union demonstrated it will serve a well-defined community, and it has wide-spread support from community residents, businesses, and organizations.

Low-income *Borinquen FCU*, Philadelphia, Penn., a \$2 million association-based credit union secured approval to convert its field of membership to serve the 96,000 people living in the well-defined Latino Corridor in Philadelphia. *Borinquen FCU* achieved a 64.4 percent penetration rate among its original potential members.

Coos Curry FCU, Coquille, Oregon, a \$61 million multiple-group credit union gained

approval to convert to a low-income community charter serving the 77,000 people who live in Coos County and in the portions of Lane County and Douglas County that lie west of the crest of the Coast Mountains to the Pacific Ocean. Among the documents supporting the conversion are a petition, a survey, and letters of support from a Coos County legislator and the County commissioner and sheriff.

## CUs Gain Expansion Authority

The NCUA Board granted community charter expansion authority to Mid Oregon FCU and McCoy FCU.

*Mid Oregon FCU*, Bend, Oregon, a \$32.4 million credit union with 7,300 members gained authority to expand from a community charter serving Deschutes County to include adjacent Crook County and Jefferson County, Oregon. The approval expands the credit union's potential field of membership to a total 124,000 residents. Geography separates this tri-state area from the rest of the state. Bend, the largest Oregon city east of the Cascades, is the primary trade center which draws the area together.

*McCoy FCU*, a \$136 million credit union in Orlando, Florida, gained approval to expand its community charter to serve the 202,000 people who live and work in the established well defined community of South Orange County, Fla. This expansion allows the credit union to serve the low-income community areas that exist just beyond its present boundaries as well as sections formally prohibited by its disjointed geographical boundaries.

## Exclusionary Clause Debate

In recent months, the NCUA Board has considered several community charter applications (conversions and expansions) which contained overlapped credit unions. An exclusionary clause is used to limit overlapping the members of other credit unions. In order to become better informed on this issue and to clarify existing policy, the Board will ask credit unions for their input via the comment process.

At the July 23 Board meeting, Chairman Norman E. D'Amours supported the granting of exclusionary clauses that had been agreed upon by the credit unions involved and called attention to the *Chartering Manual* provision that encourages credit unions to resolve possible overlap disputes by the use of mutually agreed upon exclusionary clauses. Specifically, the manual states, “General policy requires that every reasonable effort be made to avoid an overlap,” and when overlaps arise, “...officials of the involved credit unions must attempt to work the problem out between themselves.” The manual specifically suggests the use of written exclusionary clauses.

Board Member Yolanda Townsend Wheat noted the *Chartering Manual* provision that “*exclusionary clauses are rarely if ever appropriate for inclusion in a community charter’s field of membership*” and that once granted they are hard to enforce. “Most recently,” she pointed out, “the Board has granted some exclusionary clauses for safety and soundness as well as other concerns. The language in the manual is confusing, perhaps even contradictory. We need to clarify the policy and make any needed adjustments in order to give credit unions guidance.”

Each board member expressed a desire to submit the overlap and exclusory clause issue to the credit union industry for comment. This, along with several other changes to NCUA chartering policy could possibly be issued for comment at the upcoming September Board meeting.



## Vice Chairman Bowné Testifies On GPRA

# NCUA Fully Supports Boosting Confidence in Government

"The NCUA Board fully supports the (Government Performance and) Results Act and its goal of boosting the confidence the American people have in their government," Vice Chairman Shirlee Bowné told the House Banking Committee while testifying along with fellow financial regulators July 29.

To meet that goal, NCUA has developed a standardized, performance-based strategic plan that looks at NCUA operations, measures the effectiveness, and reports the results. The factors considered in developing the plan include:

- NCUA's mission set forth in the Federal Credit Union Act;
- agency goals and objectives;
- effectiveness of the current examination and supervision program;
- agency resources;
- the health of credit unions; and
- external factors such as the economy, technology, and predominate legal challenges.

The draft plan has the following six strategic goals, corresponding objectives to achieve the goals, and measures to evaluate results.

1. **Federal Credit Union Program:**  
Maintain a system of financially sound, well managed federally chartered credit unions.

2. **Federal Share Insurance Program:**  
Protect member savings in federally insured credit unions, thus safeguarding federal taxpayer funds.
3. **Liquidity Management Program:**  
Improve the general financial stability of credit unions by meeting their liquidity needs through the Central Liquidity Facility and a sound corporate credit union system.
4. **Community Development Program:**  
Further the availability of credit union financial services through special regulation to serve the disadvantaged;
5. **Consumer Compliance Program:**  
Ensure credit union compliance with consumer regulations; and
6. **Resource Management Program:**  
Responsibly manage the agency's human, financial, and technical resources.

While NCUA has developed long-range plans in the past, with the attention of Congress and our stakeholders, this plan "enforces a discipline on the agency...." and "gives all our stakeholders, especially credit unions who fund the agency, a set of guidelines for rating our effectiveness and efficiency," Vice Chairman Bowné told the Committee.

In closing remarks Mrs. Bowné said, "federally insured credit unions have

performed extraordinarily well through the 1980s and 1990s. We believe they will continue to prosper into the next century."

After comments are reviewed and incorporated where appropriate, our strategic plan will be delivered to Congress by September 30, 1997.

## James Created Strategic Plan Carver Will Implement

A Government Accounting Office report, which evaluated each of the five financial regulators strategic plans, found little to criticize in the NCUA package. **Tawana Y. James**, NCUA deputy executive director (DED) receives high praise for preparing a thorough package to meet GPRA requirements.

Chairman D'Amours commended James on the superior package she prepared noting, "This strategic plan is an excellent tool. It encompasses the major goals and responsibilities of this agency and will be NCUA's primary guide to prepare for the future. I can't say enough about the tremendous job Tawana has done."

Because of the extensive number of projects James is juggling as DED, implementing the program will be passed to the newly established post of Strategic Planning director.

Experienced Regional Director **H. Allen Carver** is returning to headquarters as the director of Strategic Planning, a role previously handled by various offices. The Board created and assigned Carver to the post last month because NCUA needs a strong, single manager for several major projects — long range planning, implementing the Government Performance and Results Act (GPRA), and overseeing credit union Year 2000 issues.

Making the announcement, Chairman D'Amours said, "Allen Carver returns to headquarters for the second time in a few years because the Board feels these high profile, critical issues necessitate a strong leader with organizational skills and the depth of management experience he possesses." Allen Carver served in headquarters several years ago restructuring the Office of Corporate Credit Unions.



Vice Chairman Shirlee Bowné told the House Banking Committee that "federally insured credit unions have performed extraordinarily well through the 1980s and 1990s. We believe they will continue to prosper into the next century," when testifying on the Government Performance and Results Act July 29. From the left are OCC Comptroller Eugene Ludwig, OTS Director Nicolas Retsinas, Mrs. Bowné, and Acting FDIC Chairman Andrew Hove.

## Chairman D'Amours Testifies On Year 2000

# NCUA Works Toward 100% Compliance When the Ball Drops on Year 2000

NCUA is working diligently so credit unions complete initial tests in 1998 and are ensured that their computer systems end the millennium and begin the next century without a hitch, Chairman Norman E. D'Amours told the Senate Banking Subcommittee convened July 30 to ensure that all financial institutions and their regulators are ahead of potential problems as year 2000 approaches.

NCUA, in cooperation with credit unions and with fellow financial regulatory agencies through the Federal Financial Institutions Examination Council (FFIEC) wants all depositors' accounts that are tracked, maintained, and processed by computer to remain unaffected as the century changes. The inherent risk is tied to the programming code in many existing computer systems that may result in inaccurate calculations based on any two-digit year field containing "00." Computer systems may read the year 2000 as 1900.

"We have taken a three-part approach to address the Year 2000 issue at the micro and macro level," Chairman D'Amours explained to the Committee. The plans include:

- Developing individual plans through our examination and supervision

program for non-compliant federally insured credit unions;

- Providing relevant Year 2000 information to federally insured credit unions, NCUA staff, state supervisory authorities, and various trade organizations; and
- Working directly with credit union electronic data processing vendors to ensure compliance of their computer systems and software.

"A key component of the program requires credit unions to complete initial system tests during 1998 to ensure that adequate time remains to debug and implement a fully compliant system by the end of 1999," the Chairman said.

Beginning last year, NCUA has taken numerous steps to heighten awareness of the Year 2000 issue. To alert credit unions, last August NCUA issued *Letter to Credit Unions No. 96-CU-5* with an attached interagency statement from the FFIEC about the effects of the problem along with a recommended course of action. NCUA has also:

- Identified federally insured credit unions that have a high risk of not becoming Year 2000 compliant and increased our supervision to enhance compliance;

- Developed an automated procedure to collect and compile Year 2000 compliance information on all federal credit unions as well as select federally insured state credit unions;
- Identified and contacting major credit union electronic data processing (ED) vendors and assessing their compliance efforts; and
- Held a preliminary EDP vendor meeting to discuss hardware concerns and methods of identifying Year 2000 problems.

In the near future, NCUA will hire a consulting firm to assist in performing Year 2000 compliance reviews of EDP vendors and provide staff with Year 2000 training. The agency will also hold a conference with credit union EDP vendors to discuss processing concerns and solutions. A number of examiners will be trained to assist small, automated credit unions in their conversion process.

To ensure compliance, NCUA will use administrative actions and remedies for credit unions that do not take sufficient actions to become compliant.

In closing, Committee Chairman, Senator Robert Bennett of Utah asked the five testifying federal regulators and the Security Exchange Commission to submit a monthly report tracking progress on this important issue.

## "Predatory Banks" and "Mom and Pop" Credit Unions Testify

Senator Bennett, Chairman of the Senate Banking Subcommittee on Financial Services and Technology welcomed Chairman Norman E. D'Amours to the hearing on the Year 2000 Conversion Project by noting that, according to credit people who come see him, NCUA oversees the "smallest mom and pop" financial institutions as opposed to the "big predatory banks."

As laughter erupted Senator Bennett said, "I guess I shouldn't have said that," and Chairman D'Amours replied, "No no, I think you said that just right."

Photo will not print

"We have taken a three-part approach to address the Year 2000 issue at the micro and macro level," Chairman Norman E. D'Amours told the Senate Banking Committee July 30 at a hearing on Year 2000 project management. From the left are Federal Reserve Board Governor Edward Kelley, Jr., OCC Comptroller Eugene Ludwig, Securities and Exchange Commissioner Arthur Levitt, Jr., and Chairman D'Amours.

# Top Management Realigned

The NCUA Board in July named a new regional director and associate regional director, created a new top management position in Alexandria, and selected a deputy director for the Office of Examination and Insurance.

The people named to new positions are:

- Alonzo Swann is Director of Region III;
- Eleanor Taylor is Associate Regional Director of Operations in Region V;
- H. Allen Carver fills the new post of Strategic Planning Director (see page 4 story); and
- Melinda Love is Deputy Director of Examination and Insurance

**Alonzo Swann**, as Regional Director of the Atlanta office, heads the NCUA credit union supervision and examination program in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, and the Virgin Islands.

Chairman Norman E. D'Amours attributes Swann's selection by the Board to his excellent leadership credentials. "Alonzo Swann has superior communication skills, he has demonstrated an ability to establish and maintain rapport with credit union officials, has strong leadership skills, and perhaps most importantly, he is able to think 'outside the box,'" the Chairman said.

Mr. Swann has advanced rapidly since beginning his NCUA career in 1986 as an examiner in Gary, Indiana. He has held various positions in headquarters and the region -- supervision analyst, NCUA instructor, Director of Supervision and Director of Operations in the Office of Examination and Insurance (E&I). Most recently, he served three years as an Associate Regional Director heading the field program in Region IV

**Eleanor Taylor** becomes the Region V Associate Regional Director for Operations, responsible for managing the regional office staff and the Special Actions program. She was selected as the best qualified among 12 candidates vying for the position.

Chairman D'Amours explained the Board's decision. "As a supervisory examiner for ten years, Eleanor Taylor is known for motivating and developing members of her staff. She has demonstrated seasoned judgment and a calm objective manner when handling challenging assignments." Ms. Taylor joined the agency as an examiner in Midland, Texas in 1982.

**Melinda Love**, the new Deputy Director of Examination and Insurance, is responsible for assisting the E&I director in managing NCUA's supervision and examination program for the nation's federal credit unions.

"Melinda Love was selected because she demonstrates the qualities that make a manager very effective," Chairman D'Amours noted. "She is an excellent problem solver, has keen intellect, and is an articulate communicator while striving to achieve the agency's goals and objectives."

Beginning her NCUA career as an examiner in San Francisco in 1986, Ms. Love has held numerous positions in the past 11 years -- principal examiner, supervision analyst, problem case officer, Acting Director of Special Actions, and a supervisory examiner.



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